

BEFORE THE
Federal Communications Commission
WASHINGTON, DC 20554

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Federal Communications Commission
Office of Secretary

In the Matter of)
)
International Settlement Rates) IB Docket No. 96-261
)

**REPLY COMMENTS OF THE
INTERNATIONAL COMMUNICATIONS ASSOCIATION**

The International Communications Association ("ICA")¹, by its attorney, hereby submits its reply comments in response to initial comments regarding the Commission's Notice of Proposed Rulemaking in the above-captioned matter.² As large users of international telecommunications services, ICA members will be directly impacted by Commission decisions in this proceeding.

ICA supports the Commission's efforts to reduce to cost-based levels the international accounting rates paid to foreign telecommunications companies. The Commission well understands that foreign telecommunications operators are greatly benefitted when they keep their accounting rates artificially high as the cost of terminating calls continues to dramatically

¹ ICA is the largest association of telecommunications users in the United States, with more than 400 members who collectively spend over \$23 billion per year upon acquisitions of telecommunications services and equipment. Because of ICA members' increasing reliance on public telecommunications, ICA members' expenditures on telecommunications are growing rapidly. As heavy users of telecommunications services, ICA members have a special interest in the Commission's deliberations in this proceeding.

² *International Settlement Rates*, IB Docket No. 96-261, Notice of Proposed Rulemaking, (released December 19, 1996), FCC 96-484 ("NPRM").

decrease. This outdated system results in higher outpayments³ from US carriers to foreign telephone companies which inflates the prices paid by ICA members to make international calls. The fact that service providers in many other countries are reluctant to disclose their true costs to terminate calls from the US should not prevent the Commission from making reasonable estimates of these costs on the basis of known US and international costs and tariffs. As our own telecommunications experience has clearly demonstrated, monopoly providers of telecommunications services are unlikely to lower prices unless compelled. Therefore, unless the Commission uses its jurisdiction over US carriers' international accounting rate arrangements, it is unlikely that some foreign interests will reduce the subsidies paid to foreign carriers and move international settlement rates to cost.

The Commission's current benchmark proceeding can have a significant impact on the competitiveness of ICA members' global operations. We concur with the Commission's belief that "the current above-cost accounting rate system...restrains the development of competition in U.S. and foreign markets, creates the potential for distortions in the U.S. market for IMTS, and significantly increases prices for U.S. customers."⁴ If these subsidies can be removed from the international accounting rate system, the cost of doing business internationally will decrease, thereby increasing global competitiveness.

³ Outpayments from US carriers to foreign operators now exceeds \$5 billion per year.

⁴ See also Comments of AT&T Corp., p. i; Frontier, p. 1; MCI p. 2; Office of the U.S. Trade Representative, p. 1; CSI p. 4-6.

Reduced accounting rates will promote telecommunications competition in foreign markets and help ICA members compete globally. As the US House of Representatives Committee on Commerce explains, "history has shown that artificially high settlement streams have been ineffective in encouraging investment in telecommunications infrastructure, and actually work to create a disincentive to reform regulatory policies to permit competition."⁵ Judging from our own experience with the positive effects of competition, if the Commission is able to reduce the flow of excess profits to foreign telephone companies, those firms will lose much of their incentive to stifle competition. This, in turn, will facilitate the entry of new competitors in these markets, who will offer a set of more technologically advanced, user targeted, cost-based, and innovative services. This increased competition will help ICA members, and American business in general, to better do business internationally, leveraging an increasing number of cost-effective and feature-rich services.

In addition, moving international accounting rates to a cost-based level will stimulate telecommunications development worldwide. A robust market for international services will provide additional financing for telecommunications network infrastructure and result in overall higher quality service globally.

Some foreign monopoly telecommunications providers, while generally supporting the goal of cost-based settlement rates, suggest that the Commission should continue to rely on

⁵ Chairman Tom Bliley et al., letter to the Honorable Reed E. Hundt, January 29, 1997, ¶ 11, p. 3

market competition and/or bilateral consultation to achieve its goals.⁶ These carriers fail to take into account that after years of effort by US carriers to lower accounting rates through negotiations and by the Commission through voluntary benchmarks and bilateral discussions, little meaningful progress has been achieved. The fact of the matter is that although we have competition in most sectors of the US telecommunications market⁷, most countries continue to sanction monopolies. The Commission has made good-faith efforts over a number of years to lower rates using traditional methods. Again the Commerce Committee states: "experience has demonstrated that other countries will take as long as possible to reform the settlements system."⁸

If foreign carriers would disclose their costs, and other countries would open their markets to competition, then their ratepayers and citizens would enjoy the benefits of competition, and American businesses and consumers would no longer be subjected to subsidy-laden international accounting rates. Unfortunately, this is not happening in most countries. Since ICA members represent a significant portion of the unwilling American contributors to the sky rocketing US outpayments, ICA believes that the Commission should

⁶ China Telecom, p. 1; Chunghwa Telecom, p. 2; GTE, p. 14; Telintar, p. 7; Telefónica, p. 32.

⁷ Last year's new US telecom law mandates competition for all US telecommunications markets. While some state regulators are aggressively implementing pro-competitive interconnection pricing policies similar to those articulated by the Commission in its interconnection decision, some states are not. Unless the Commission acts aggressively later this Spring to eliminate the excessive charges contained in local telephone company interstate access rates by adopting forward-looking economic costing policies, it is likely to take several decades before most Americans are presented with meaningful local competition.

⁸ Bliley, ¶ 8, p. 3.

wait no longer to reform the arcane and archaic accounting methods that so grossly distort the use of international telecommunications services, as well as the US trade balance.

Finally, ICA believes that the labeling of callback services as a major cause of the problem⁹ is disingenuous and illogical. These services are a natural response of the marketplace to global pricing distortions.¹⁰ To remain competitive, ICA members are forced to allocate significant resources in order to figure out the most economical way to route international calls -- callback services are one import option. Although this type of arbitrage opportunity has been helpful in minimizing the negative impacts of the subsidy in international accounting rates, they increase the complexity of maintaining global networks. Cost-based rates for international long distance services would simplify network design work by removing the need to provision and administer such alternative services.

In conclusion, ICA wholeheartedly supports the Commission's stated desire to lower international settlement rates to cost-based levels. As a first step, the Commission should mandate that US carriers achieve settlement rates within the benchmarks in the proposed time frames of one, two, and four years. Further, to avoid marketplace distortions, we support having the Commission condition access to the US telecommunications market on implementation of true cost-based accounting rates (TELRIC), and not simply the benchmark

⁹ Singapore Telecom, p. 4, 5, 7; China Telecom, p. 2; Telecom Italia, p. 4; International Telecom Japan, p. i, 14-16; France Telecom, p. 6, 7; Chunghwa Telecom, p. 2; Deutsche Telekom, p. 2, 7; Telintar, p. v, 3, 5, 33; KDD, p. ii, 8; et al.

¹⁰ Telefonos de Mexico, att. p. 5; Frontier; Deutsche Telekom, p. 7.

rates as the Commission has proposed¹¹. These actions must be strictly enforced. If implemented, these steps will go a long way towards insuring that American residential and business consumers are no longer unfairly burdened by today's outdated international accounting rate system.

Respectfully submitted,

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¹¹ The Commission must be mindful to fully implement TELRIC pricing policies as it makes decisions in its access charge reform proceeding so as to not undermine the pro-competitive forward-looking economic costing goals referenced in its interconnection proceeding and this proceeding.